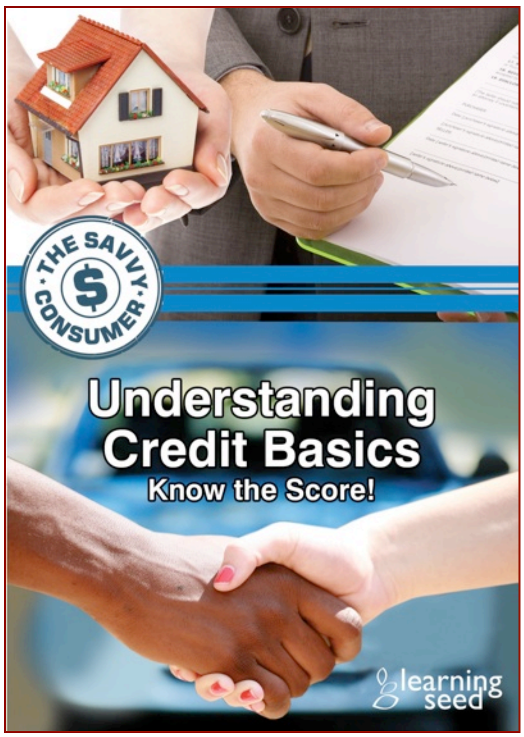
THE SAVVY CONSUMER

Understanding Credit Basics

Know The Score!



Suite 301
641 West Lake Street
Chicago, IL 60661
800.634.4941

info@learningseed.com
www.learningseed.com

THE SAVVY CONSUMER

Understanding Credit Basics

Legal Niceties

The Video

Teaching Guide

Credits

The Video

Executive Producer: Kari D. McCarthy
Writer: Elizabeth Winkowski, Akela Stanfield
Producer: Tracy Ullman
Video Editor: Joanna Beer
Assistant Producer: Jennifer A. Smith
Narrator: Kate Burns

This Teaching Guide

Compilation: Denise Dean
Copy Editor: Akela Stanfield

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Please contact us at:

Learning Seed
Suite 301, 641 W. Lake Street
Chicago, IL 60661
800.634.4941
info@learningseed.com

Summary

This program helps provide students with a better understanding of the concept of credit. We will examine credit in some of its different forms, and see how each one works. Possible methods to build and protect individual credit, and ways to manage credit are discussed. Students will also learn basic credit and finance terminology.

Key Elements

After viewing this film, students will have learned

- The difference between compound and simple interest
- Three major categories of credit: installment, revolving & non-revolving
- Common types of each of the three major credit categories
- How to obtain credit: Steps to take toward building a good credit history
- The functions of credit bureaus
- The importance of regularly reviewing the credit report, and how to obtain it
- The three Cs used by creditors to determine creditworthiness
- Three steps toward a good credit score
- The use of credit counselors: four things to watch for
- Three tips to help prevent identity theft

Teacher's Aid
Three Major Types of Credit

Installment Credit	Revolving Credit	Non-Revolving Credit
Creditor lends the borrower an agreed-upon amount of money all at once, with the expectation that regular payments will be made until the principal, plus interest, is paid in full.	Revolving credit accounts permit borrowers to use money over and over again, up to their approved credit limit, as long as at least the minimum monthly payment is made by the due date on the monthly statement.	Non-revolving accounts must be paid off entirely each month.
Auto Loan - Often requires a down payment - Lender holds the title until the loan is paid in full	**Credit Card** - Cardholder uses a bank's money to pay for purchases - No cash required at the time of the transaction - Often includes an initial "grace period" during which no interest is charged - Involves compound interest	**Charge Card** - No balance may be carried over - No interest charged - Large credit limits - Large annual fee - Failure to pay off the balance may result in larges penalties and immediate cancellation of the account
Student Loan - No down payment - Often government guaranteed	**Store Card** - Only be used for purchases in the chain of stores whose name is on the card - No cash required at the time of the transaction - Often includes an initial "grace period" during which no interest is charged - Involves compound interest	
Home Mortgage Loan - Often requires a substantial down payment - Lender holds the title until the loan is paid in full	**Home Equity Line of Credit** - Borrowing similar to credit cards - Requires using equity in the borrower's home as collateral	

Teacher's Aid
Tips and Notes Handout

<u>Steps toward Building a Good Credit History</u>

Develop habits that demonstrate you are likely to repay debts on time:

- Maintain both checking and savings accounts
- Apply for a debit card
- Open utility accounts in your own name: gas, electric, water, phone
- Apply for a secured credit card
- Apply for a credit card, using a co-signer, if necessary

<u>Credit Bureau Ins and Outs</u>

Credit Bureaus review your credits and give it a grade: It's called your FICO score. Scores range from 300 – 850. The higher the score, the better your credit.

Important factors considered when calculating your credit score:

- History of paying bills on time
- The amount of money owed to all lenders
- Open accounts with no balances
- Accounts you have applied for but not opened

Take responsibility for your credit score:

- Start by checking your credit report periodically to see where you stand.
- By law, everyone is entitled to a free credit report once a year. You can request one at annualcreditreport.com.
- Make your payments on time.
- If you get behind on payments, do your best to get and stay current.
- Do not borrow too much too often.

Major Credit Bureaus

- TransUnion
- Equifax
- Experian

The Three Cs: How Creditors Determine Creditworthiness

1. Capacity – Are you capable of paying your debt?
   Considering you job, salary and expenses – do you have the means to repay your debt?

2. Collateral – Do you have a savings account or property, such as a car or house?
   If you fail to repay your debt, what can the lender get form you instead?

3. Character – Regardless of whether you can repay your debt, the question is, will you?

Using Credit Counselors

If your debt gets out of hand, and your credit has started to go downhill, you may want to consult a credit counselor. Credit counselors are members of non-profit organizations that often negotiate with creditors to establish a debt management plan for the consumer, and help lower payments and interest rates.

Four considerations when using Credit Counselors:

1. Do not pay a large set-up fee

2. Be sure the organization is accredited by either:
   a. the National Foundation for Credit Counseling (NCCC) – http://www.nfcc.org or
   b. Association of Independent Consumer Credit Counseling Agencies (AICCCA) – http://www.aiccca.org

3. Clarify the status of all missing or partial payments by confirming upfront that all of your payments will go to your creditors.

4. Beware of unrealistic promises: most negotiated repayments take along with them some negative affect to your credit rating.

Identity Theft

Identity theft occurs when someone steals your personal information, pretends to be you, and then makes purchases or commits illegal acts using your name.

Three tips to help prevent Identity Theft:

1. Don't share your social security number or other personal information unless absolutely necessary.

2. Always read through your bank and credit card statements to make sure you recognize all the charges. If you see unauthorized charges, contact your credit card company immediately.

3. Be careful where you store and dispose of documents containing personal financial information. Consider purchasing a document shredder.

Teacher's Aid - Unit Resource Guide
Credit C.A.R.D Act of 2009

Materials/Resources

Online Resources:

- Credit Card Accountability Responsibility and Disclosure Act of 2009 (The Credit C.A.R.D. Act, signed into law May 22, 2009)

  http://www.gpo.gov/fdsys/pkg/PLAW-111publ24/pdf/PLAW-111publ24.pdf

Offline Resources:

- Glossary
- Additional Resources

Recommended Grade Level: 8-12 **Video Companion:** Understanding Credit Basics

Suggested Prerequisite Video: Using Credit Cards Wisely

Guide Summary

The new **Credit C.A.R.D Act of 2009** contains new protections for college students and young adults, including a requirement that parents must cosign on loans for young borrowers, restricts the issuance of credit cards to students under 21, requires that card issuers, universities disclose agreements with respect to the marketing or distribution of credit cards to students, and more.

With the issuance of this new act students should be taught how their rights change for the better or worse when using credit cards as a young adult. This guide will assist you in presenting this new and important information to your students, with fun and informative lessons and exercises.

Teacher's Aid – Research Activity
The New Credit Card Bill of Rights Credit C.A.R.D Act of 2009

Credit Card Accountability, Responsibility, and Disclosure (C.A.R.D.) Act

Summary

On May 22, 2009 President Obama signed into law the Credit Card Accountability, Responsibility, and Disclosure (C.A.R.D.) Act. Also known as the Credit Reform Bill or the Credit Card Bill of Rights, this bill works to define and protect credit cardholder rights. Most of the rules will be put into effect in February 2010.

Activity

Ask students to find the Act online and then answer these questions about the key elements of the C.A.R.D. Act. A searchable .pdf of the Act is available at:
http://www.gpo.gov/fdsys/pkg/PLAW-111publ24/pdf/PLAW-111publ24.pdf

The questions without the answers are available on the next page.

1. By when must statements be sent to the cardholder?
   Answer: Statements must be sent no less than 21 days before the due date.

2. How much time will cardholders be given before their interest rate can be increased?
   Answer: Cardholders are given 45 days notice before their interest rate is increased or before any other major changes are made.

3. What relief will be available to the credit card holder if they have experienced an interest rate increase due to a poor payment history, but have worked to improve their payment habits?
   Answer: After a rate increase, if the cardholder pays on time for 6 months, the original rate must be restored by the company.

4. By what time must the cardholder's payment be received by the card issuer to be considered on-time?
   Answer: Payments received by 5:00 pm on the due date will be considered on-time.

5. Can the card issuer increase the interest during the first year the account is issued?
   Answer: Interest rates cannot be increased within the first 12 months of an account, and promotional rates must last for at least 6 months.

6. Can credit card issuers unilaterally impose over-credit-limit fees?
   Answer: No, over credit limit fees are now prohibited unless agreed upon by the cardholder.

7. What will the new rules be regarding the length of time it will take to pay off a particular balance if the cardholder only makes the minimum payment?
   Answer: Cardholders will be given clear disclosure on how long it will take to pay off a balance if minimum payments are made. They will also be told the total interest costs if making minimum payments.

8. What are the restrictions for issuing cards to people under 21 years old?
   Answer: Card issuers are prohibited from giving cards to people under the age of 21 unless they can prove they have the means to repay the debt, or a parent or guardian co-signs.

Student Handout – Research Activity
The New Credit Card Bill of Rights Credit C.A.R.D Act of 2009

The Credit Card Accountability, Responsibility, and Disclosure (C.A.R.D.) Act

On May 22, 2009 President Obama signed into law the Credit Card Accountability, Responsibility, and Disclosure (C.A.R.D.) Act. Also known as the Credit Reform Bill or the Credit Card Bill of Rights, this bill works to define and protect credit cardholder rights. Most of the rules will be put into effect in February 2010.

A searchable .pdf of the Act is available at:
http://www.gpo.gov/fdsys/pkg/PLAW-111publ24/pdf/PLAW-111publ24.pdf.

Activity Directions

Find the Act and then respond to these questions about the key elements of the C.A.R.D. Act.

1. By when must statements be sent to the cardholder?
2. How much time will cardholders be given before their interest rate can be increased?
3. What relief will be available to the credit card holder if they have experienced an interest rate increase due to a poor payment history, but have worked to improve their payment habits?
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7. What will the new rules be regarding the length of time it will take to pay off a particular balance if the cardholder only makes the minimum payment?
8. What are the restrictions for issuing cards to people under 21 years old?

Teacher Lesson Plan – Discussion Activity
Credit C.A.R.D Act of 2009

Share this Information with your Students to open up discussion!

The Credit Card Accountability, Responsibility, and Disclosure (C.A.R.D.) Act

The Act will include many consumer friendly regulations concerning unfair interest rate hikes, unnecessary fees, the timing of payments and improved disclosure of terms. But could there end up being some unintended consequences?

Is it fair for credit card companies to put other fees and requirements into place to try an offset these new rules and thereby save some of their profits? Here are some of those new fees.

- While it will be harder for credit card companies to raise rates, many credit card issuers are changing customers over to variable rate cards. Credit card companies can limit how low rates can go.

- The new law credit card companies must provide a 21 day grace period in making payments before fees can be issued. If you don't make your payments by that deadline, fees can increase based on the size of the balance. While the largest fees used to be on balances of $1000 or higher, they will now begin on $250 balances.

- Balance transfers move balances from a high rate card over to one with a lower rate, but now balance transfer fees are being increased. The cap for the transfer fee used to be $50, but now most companies are charging a percent of the balance.

- Inactivity fees are being charged for customer who have accounts but haven't used them. Some card companies are even penalizing consumers if they close accounts with balances.

Discussion Questions

1. After hearing about the new policies credit card companies are creating in response to the fair Credit Billing Act, do you think the process of using credit will ever be fair and balanced on/for both sides?

2. What are some strategies that you can devise that will allow credit cards to still work for the consumer? What new practices should Americans adopt to get fair and efficient use out of their credit cards? What specific things will American credit card users have to stop doing to get fair and efficient use out of their credit cards?

3. Besides the idea of losing money why do you think Credit Card companies felt the need to protect themselves against this new act? Do you think this is a way for the government to suggest American's be better off without Credit Cards? Explain your answers.

4. Do you think the government should have the right to step in and create guidelines for private credit card companies? Why or Why not? Should there be limits to what the government can do to protect consumers?

Understanding Credit Basics

Matching Quiz

Match the words in the first column to the best available answer in the second column.

______	These accounts permit borrowers to use money over and over again, up to their approved credit limit.	1) Credit Score
______	Loans calculate interest so that each month, or each day, so you are charged interest on the amount of interest you already owe.	2) Mortgage Loan
______	A method of borrowing in which a homeowner may borrow against home equity as needed using a checkbook or credit card.	3) Revolving Credit
______	The maximum amount of credit extended to a cardholder.	4) Compound Interest
______	A loan to finance the purchase of real estate, usually with specified payment periods and interest rates.	5) Credit History
______	Open utility accounts in your own name such as gas, electric, water, or phone and applying for a secured credit card are steps toward making a good:	6) Credit Limit
______	To prevent this, do not share your social security number or other personal information unless absolutely necessary.	7) Three Cs
______	The interest rate over the period of one year that is applied to credit cards and loans.	8) Annual Percentage Rate
______	Capacity, collateral and character area all under consideration when lenders try to decide whether to provide you with credit.	9) Identity Theft
______	Taking responsibility for this begins with by checking your credit report periodically.	10) Home Equity Line of Credit

Using Credit Cards Wisely

Matching Quiz ***Answer Key***

__3__	These accounts permit borrowers to use money over and over again, up to their approved credit limit.	1) Credit Score
__4__	Loans calculate interest so that each month, or each day, so you are charged interest on the amount of interest you already owe.	2) Mortgage Loan
_10__	A method of borrowing in which a homeowner may borrow against home equity as needed using a checkbook or credit card.	3) Revoloving Credit
__6__	The maximum amount of credit extended to a cardholder.	4) Compound Interest
__2__	A loan to finance the purchase of real estate, usually with specified payment periods and interest rates.	5) Credit History
__5__	Open utility accounts in your own name such as gas, electric, water, or phone and applying for a secured credit card are steps toward making a good:	6) Credit Limit
__9__	To prevent this, do not share your social security number or other personal information unless absolutely necessary.	7) Three Cs
__8__	The interest rate over the period of one year that is applied to credit cards and loans.	8) Annual Percentage Rate
__7__	Capacity, collateral and character area all under consideration when lenders try to decide whether to provide you with credit.	9) Identity Theft
__1__	Taking responsibility for this begins with by checking your credit report periodically.	10) Home Equity Line of Credit

Understanding Credit Basics

Fill-In-The-Blank

Select the correct term from the list below and write it in the blank space. Some terms may be used more than once, while others not at all.

1. A _______________ _______________ may have the backing of a government guarantee to lessen the risk to the lender.

2. Your repayment history, credit score, and how long you've been at your job and lived at your current address, are considered evidence of your _______________.

3. If you want to build a good _______________ _______________, start with habits that demonstrate you're likely to repay debts on time and in full.

4. Credit cards and home equity loans are common forms of _______________ credit.

5. _______________ _______________ is interest paid only on the original principal, not on the interest accrued.

6. When you borrow from a bank, it expects full repayment of the principal plus additional fees called _______________ _______________.

7. Common types of _______________ _______________ include car loans, student loans and home mortgage loans.

8. A _______________ _______________ is a large payment made to the lender at the time you are arranging your loan.

9. Your lender can decide whether to trust you – and how much – by requesting a copy of your _______________ _______________.

10. _______________ _______________ are nonprofit organizations that will work with you and your creditors to help lower your payments and interest rates.

simple interest	**credit counselors**	**revolving**	**installment credit**
character	**grace period**	**credit report**	**finance charges**
credit history	**down payment**	**student loan**	**compound interest**

Using Credit Cards Wisely

Fill-in-the-Blank Exercise ***Answer Key***

1. A **student loan** may have the backing of a government guarantee to lessen the risk to the lender.

2. Your repayment history, credit score, and how long you've been at your job and lived at your current address, are considered evidence of your **character**.

3. If you want to build a good **credit history**, start with habits that demonstrate you're likely to repay debts on time and in full.

4. Credit cards and home equity loans are common forms of **revolving** credit.

5. **Simple interest** is interest paid only on the original principal, not on the interest accrued.

6. When you borrow from a bank, it expects full repayment of the principal plus additional fees called **finance charges**.

7. Common types of **installment credit** include car loans, student loans and home mortgage loans.

8. A **down payment** is a large payment made to the lender at the time you are arranging your loan.

9. Your lender can decide whether to trust you – and how much – by requesting a copy of your **credit report**.

10. **Credit counselors** are nonprofit organizations that will work with you and your creditors to help lower your payments and interest rates.

Glossary

Annual Fee – A fee often charged by credit card companies that is assessed on a yearly basis, simply for having the credit card.

Annual Percentage Rate (APR) – The interest rate over the period of one year that is applied to credit cards and loans.

Borrower – The individual who uses a bank's money.

Charge Card – Requires cardholders to pay off their full balance each month.

Compound Interest – Once interest charges are added to the principal, the additional interest becomes part of the balance, and cardholders will therefore end up paying interest on their interest.

Cosigner – Borrowers under the age of 21 often require someone with a good credit history to also sign the loan application and to agree to pay the debt if the main borrower fails to do so.

Credit – Money given in exchange for a promise for future payment.

Credit Bureau – Company that acquires information and then reports credit histories and ratings of both businesses and individual.

Credit Card – Permits a cardholder to use a bank's money to conveniently pay for purchases such that no cash is required at the time of the transaction.

Credit History – Record of a borrower's payment behavior that reflects her ability to repay a loan and that is used in rating one's credit, and as a qualifier for a new loan.

Credit Line – Also called a "line of credit." Credit extended by the bank to a cardholder from which the borrower draws and then pays back as part of his revolving credit.

Credit Limit – The maximum amount of credit extended to a cardholder.

Credit Report – History compiled about a borrower by a accredit bureau that generally includes payments history, credit account balances, and unused credit.

Credit Score – A numerical rating provided by a credit bureau that assesses the ability of a borrower to repay a loan.

Creditor – See Lender.

Debit Card – Also called a bank card or a check card. When using a debit card, funds are directly withdrawn from the cardholder's bank account.

Debt – The amount the borrower owes the bank that lent her the money.

Due Date – The date by which the bank must receive at least the minimum payment.

Down Payment – A large payment made to the lender that before money is loaned to the borrower.

FICO – Popular type of credit score. FICO is an acronym for Fair Isaac Corporation.

Finance Charges – Interest and fees charged for credit.

Government Guaranteed Loan – A loan that the government promises to pay back the bank, such as a student education loan, should the borrower fail to do so.

Grace Period – The amount of time a borrower has to pay off the full balance of their credit account without incurring additional finance charges.

Home Equity – The current market value of a home minus the outstanding mortgage balance.

Home Equity Line of Credit – A method of borrowing in which a homeowner may borrow against home equity as needed using a checkbook or credit card.

Home Equity Loan – A loan secured by a primary residence or second home that is based upon the excess of fair market value over the amount currently owed on the property.

Home Loan – See Mortgage.

Identity Theft – When an individual's personal and confidential information is illegally obtained; pretending to be someone else to steal that person's money or benefits.

Installment Credit – A set amount of money borrowed all at once that is generally repaid in equal payments until the principal, plus interest, is paid in full.

Interest – A finance charge the bank charges for borrowing money.

Interest Rate – A percentage the borrower must pay in addition to the amount borrowed.

Lender – Person or organization that makes a loan.

Minimum Payment – The least amount payable to the lender to avoid being charged additional fees or experiencing damage to the borrower's credit worthiness.

Mortgage – A loan to finance the purchase of real estate, usually with specified payment periods and interest rates.

Non-Revolving Credit – Credit generally offered via the charge card. With Non-revolving credit, there is not interest charged, bur the balance must be paid off entirely each month.

Principal – The original amount borrowed**.**

Revolving Credit – The type of credit generally available on credit cards that does not have a fixed number of payments.

Secured Card – A "security deposit" sent by a potential cardholder to the lender as a method for a person who has not previously had credit to establish a good credit history. While the person is essentially borrowing money from herself, this method can help a borrower eventually obtain credit.

Simple Interest – Interest paid only on the original principal, not on the interest accrued.

Additional Resources

Annual Credit Report

AnnualCreditReport.com is the ONLY authorized source to get your free annual credit report under federal law. The Fair Credit Reporting Act guarantees you access to a free credit report from each of the three nationwide reporting agencies: Experian, Equifax, and TransUnion, every twelve months.

https://www.annualcreditreport.com

Better Business Bureau (BBB)

A not-for-profit organization that provides resources for consumers, businesses, and charities reviews, including reports and the ability to file complaints.

http://www.bbb.org

Credit Counseling Accrediting Bodies

Association of Independent Consumer Credit Counseling Agencies (AICCCA)

http://www.aiccca.org

National Foundation for Credit Counseling (NCCC)

http://www.nfcc.org

Do Not Call Registry

Offers registration for consumers to stop for-profit commercial telemarketers from calling in the U.S.

http://donotcall.gov

FTC (Federal Trade Commission) Virtual Mall

Students can play games, design ads, and chat with customers and store owners while learning key consumer concepts, such as how advertising affects you, the benefits of competition, the hows and whys of protecting personal information, and how to spot scams. **In particular to this program, go to the Mall Security Office at Security Plaza to learn about identity theft and privacy.**

http://www.ftc.gov/YouAreHere/

FTC Virtual Mall for Parents & Teachers – Free Activities and Resources

Fact sheets, lesson plans, discussion and things-to-do materials that complement the "stores" on the site and that can be used to support lessons in critical thinking, language arts, writing, media literacy, business, civics, and social studies. See the PDF Fact Sheets for Privacy and Identity Theft.

http://www.ftc.gov/bcp/edu/microsites/youarehere/pages/parents_and_teachers.html

Opt Out of Pre-Approved Credit Offers

Enables you to "opt-out" of having pre-approved credit offers sent to you for five years.

http://www.optoutprescreen.com or call toll-free at **888-567-8688**

THOMAS at the Library of Congress

This site makes federal legislative information freely available to the public. Site is searchable by the bill numbers, a word or phrase in the bill, and by the bill's sponsor. For example, the progress of the Wall Street Reform and Consumer Protection Act of 2009 can be followed here.

http://thomas.loc.gov/

White House Fact Sheet of the Reforms to Protect American Credit Card Holders in the Credit Card Accountability, Responsibility, and Disclosure Act of 2009

Describes measures signed into law that strengthen consumer protection in the credit card market.

http://www.whitehouse.gov/the_press_office/Fact-Sheet-Reforms-to-Protect-American-Credit-Card-Holders/